VZCZCXRO5493
RR RUEHDU RUEHMR RUEHRN
DE RUEHTN #0253/01 2761437
ZNY CCCCC ZZH
R 031437Z OCT 07
FM AMCONSUL CAPE TOWN
TO RUEHC/SECSTATE WASHDC 2472
INFO RUCNSAD/SOUTHERN AFRICAN DEVELOPMENT COMMUNITY
RUEHBJ/AMEMBASSY BEIJING 0117
RUEHSA/AMEMBASSY PRETORIA 5812

C O N F I D E N T I A L SECTION 01 OF 03 CAPE TOWN 000253

SIPDIS

SIPDIS

DEPT PLEASE PASS TO DOC FOR J.DIEMOND

E.O. 12958: DECL: 09/25/2017
TAGS: ECON ETRD CN SF
SUBJECT: CHINESE TEXTILE QUOTA A BUST?

REF: 06 PRETORIA 03868

Classified By: Consul General Helen La Lime for reasons 1.4(b) and (d).

¶1. (U) Summary. South Africa's two-year "emergency" quota on Chinese textile and clothing imports was implemented in January 2007 to fend off a flood of inexpensive, low-quality Chinese imports that had battered the local clothing and textile industry (reftel). According to import data, industry players and media reports, the quotas, to date, have had only a minimal positive effect on the domestic industry, and, in some instances, have been detrimental to local clothing manufacturers. While the trade union continues to support the quota for slowing the tide of imports, and stemming lay-offs, all parties agree that without implementation of a strategy to streamline local industry into a globally competitive sector, the majority of companies will not survive, regardless of protection. End Summary.

Background

¶2. (U) South Africa's two-year "emergency" quota on Chinese textile and clothing imports was implemented in January 2007 to fend off a flood of inexpensive, low-quality Chinese imports that had battered the local clothing and textile industry. (See reftel). South Africa restricted 31 categories of Chinese clothing and textiles, effective from January 1, 2007 to December 31, 2008. The quota was implemented following requests by labor unions, which expected the move to restore some of the approximately 70,000 jobs lost in the sector. Retailers and industry warned, however, that the quotas were implemented without any impact studies and the quotas would be inflationary, result in further job losses, and would not assist manufacturers in regaining local market share.

¶3. (SBU) Trade and Investment Officer and Washington analysts recently held meetings with South African Clothing and Textile Workers Union's Labor Researcher Etienne Vlok, Center for Chinese Studies' Program Manager Lucy Corkin, and Prestige Clothing CEO Graham Choice to discuss the economic impact of the quotas since implementation.

Import/Export Data After Quota

¶4. (U) Trade Law Centre for South Africa's (TRALAC) recently published report comparing South Africa import and Chinese export data on quota categories through the first two quarters of 2007 provides an overview of the economic effect of the quota. Imports from China in quota

categories for the first two quarters of 2007 that dropped by 36 percent, while total SA imports from the world (including China) fell by 16 percent during that same time period, suggesting nearly half of the decline in Chinese imports was shifted to imports from other countries. The rand also weakened considerably during this time period, which would have contributed to the decline in imports. Further, import data for the fourth quarter of 2006 leading up to the quota showed a 110 percent increase over the prior year, almost entirely attributable to increases in Chinese imports. This indicates that bulk purchases were made by retailers prior to imposition of the quota, which may have also led to lower import demand in the first half of 2007.

SA Quota Import Lines - China vs. World
(millions of Rand)

	Jan-Jun 06	Jan-Jun 07
China	1,574	953
Total	2,197	1,847

¶5. (U) Several countries took China's place in supplying South Africa with textiles and clothing targeted by the quotas. Vietnam was by far the biggest gainer, but other beneficiaries included Pakistan, India, Malaysia, Mauritius, and the UK. The shifting market shares are shown below.

Percent of Imports

	Jan-Jun 2006	Jan-Jun 2007
China	71.67	51.62
Pakistan	3.18	5.68
India	3.17	4.88
Mauritius	1.33	2.94
Vietnam	0.21	29.21
Malaysia	0.12	1.61
UK	1.10	2.61

¶6. (U) The quotas were designed to boost SA's production in the quota line products. Between the first and second quarter of 2007, South African exports increased from R123 million to R141 million. As TRALAC's report notes, however, "it is too early to tell if this is temporary or the start of the hoped-for recovery in the sectors."

Industry View: Quota Makes Little Impact

¶7. (SBU) According to industry players and media reports, the quotas, to date, have had only a minimal positive effect on the domestic industry, and, in some instances, have been detrimental to local clothing manufacturers. Graham Choice, CEO of Prestige Clothing, a high-end clothing cut and trim manufacturer, complained that the quotas were detrimental to his business as they included certain textiles, even though clothing manufacturers had requested that textiles be exempt. Choice explained that he could no longer obtain inexpensive Chinese fabric for his cut and trim operations, forcing him to reduce his workforce by one-third to 468 employees in just the last six months. In addition to raising costs, Choice commented that the quota led local retailers to search out clothing manufacturers in other countries that previously had not been on their radar screens.

¶8. (SBU) Retailers agree with Choice's sentiments that local manufacturing has not been assisted by the quota. National Clothing Retail Federation of SA Executive Director Michael Lawrence told journalists that the quota had not achieved the SAG's intention of substituting local products for the Chinese imports as retailers have sourced

goods in other markets. Department of Trade and Industry's Americas Manager Cobs Pillay also told Trade and Investment Officer that Woolworths and Edgars, two of the largest retail outlets in South Africa, purchased products from Chinese companies well in advance of the quota to supply retailers through August 2007, and then the retailers intended to import from Vietnam.

¶9. (SBU) While retailers and manufacturers insist that the quota has not had a positive economic impact on local production, South African Clothing and Textile Workers Union's Labor Researcher Etienne Vlok defended the quota by citing the slow-down during the first half of 2007 in what had been a half decade of ever-increasing imports. Orders to local factories were increasing, as well. Vlok, while conceding that layoffs were still occurring, noted that the rate of lay-offs had slowed. He stated that the first period of the quota was negated by importers stocking up and that the full effect of the quota will not be seen until more time has passed.

Sector Strategy Needed

¶10. (SBU) Regardless of the quota's effect, all parties agree that without implementation of a strategy to streamline local industry into a globally competitive sector, the majority of SA companies will not survive. Center for Chinese Studies' Lucy Corkin told econoffs that in its current state "clothing is an unsustainable industry" and the quota was a process "hijacked by the union" to provide short-term help, but not long-term assistance to the industry. Choice stated that the quota could only be effective if accompanied by a sector strategy to turn the older, middle-to-low-tiered manufacturers into world-class facilities specializing in high-end products. He estimated of the 1,015 current operating manufacturers, only 70 have converted to a globally competitive system. According to Choice, the SAG needs to subsidize exchange programs for developing best practices and provide skills training courses. Instead, Choice commented that DTI waited too long after the implementation of the quota to release an industrial plan for the sector and complained the industrial strategy does not identify the companies that will receive funding or why.

¶11. (SBU) Vlok also endorsed the need for a similar strategy to accompany the quota. He said that a sector

plan with 15 different programs had been agreed upon in late 2006 to stimulate local demand, streamline production, and improve innovation and quality. According to Vlok, implementation of the plan was delayed because the retailers withdrew their cooperation when the quota was announced. Without a sector strategy firmly entrenched by the end of the quota, the industry agrees that any short-term improvements will fade away with the likely new surge of Chinese products in 2009.

¶12. (C) Both Choice and Vlok also agreed that customs enforcement of import rules was lacking. Vlok noted there was little to stop transshipment of Chinese clothing and textiles in South Africa, especially from within the Southern African Customs Union. Vlok said containers not from China received little inspection. Choice argued that there were no effective anti-dumping measures against clothing and textile imports in part because customs officials were not effective on the ground. For instance, they could not tell the difference between a various types of cotton blends in shirt fabric. Both Vlok and Choice agreed that customs officials needed to be better trained.

Comment

¶13. (SBU) The SAG recently released its National Industrial Policy Framework (NIPF) and Action Plan, a strategy to support and nurture specified industries, along with its Customized Sector Program (CSP) for Clothing and Textiles. The NIPF and CSP highlight the clothing and textile sector as a key labor-intensive industry that needs government support "to preserve capabilities and retain employment." The Action Plan delineates benchmarks for improving the sector, including monitoring the implementation of the quotas on Chinese imports and reducing import duties on inputs to the clothing sector. The CSP is intended to increase cooperation and modernize the textile and apparel industries and put them on a path to higher competitiveness. The NIPF Action Plan and CSP seem to identify the specific needs discussed by industry and the union, but it remains to be seen whether development and implementation of the program can occur in time to arrest the sector's decline.
La Lime